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## **FEW OBSERVATIONS ON PATENT INFRINGEMENT DAMAGES IN THE REPUBLIC OF MACEDONIA AND THE REPUBLIC OF SERBIA**

### **Summary**

*In the article the author analyses the system of liability for patent infringement in particular the system of awarding damages in the Republic of Macedonia and the Republic of Serbia. In the Introduction the author explains the reasons for dealing with this issue and the aims of the article. In the second part the standards set by the Agreement on the Trade Related Aspects of Intellectual Property and especially the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights are reviewed, as well as the substantive law provisions of the national legislation of the two counties related to damages for patent infringement. The third part focuses on the methods of calculating damages and the possibilities that exist under the legislation of Macedonia and Serbia for compensation of the harm caused by patent infringement. At the end the author summarises the finds of the analysis and highlights the issues that should be taken into consideration in the practical application of the legislative provisions.*

**Key words:** patent infringement, damages, calculation of damages.

## I Introduction

The existence of the patent system is justified with the fact that the exclusive rights arise from the intellectual activity of a person and lead to revenues for the patent owner and thus return of investment in the research and development (R&D) that led to the invention and incentive for future R&D.<sup>1</sup> The patenting and patent licensing are promoted as possible business strategy, especially for the small and medium sized enterprises (SMEs)<sup>2</sup>. The enforcement of the patents is seen as the “guardian” of the exclusive rights. The enforcement system provides a bundle of mechanisms for the protection of the patent owner against free riders, mechanisms which guarantees that any unauthorized use of the invention will be stopped and adequately sanctioned. All of this, reinforced with the international and national strategies and activities for the promotion of the Intellectual Property, is undoubtedly one of the factors that contributed to the increased number of patent applications in the course of the last 10 years<sup>3</sup> and the steady growth of the investment in the R&D.<sup>4</sup>

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- 1 The justification of the IP system has been a question for the legal scholars, the philosophers, economist etc. The theories of John Locke, Thomas Hobbes and Georg Wilhelm Friedrich Hegel lead to the understanding of property as right, with specificities of the understanding of the notation by each of the philosophers. The basic proposition of classical economists – Jeremy Bentham, Adam Smith, Jean Baptiste Say, John Stuart Mill and John Bates Clark, is that IPRs provide „the prospect of reward“ that encourages further research and investments. On the rationale of the IP see further Birgitte Andersen, *The Rationales for Intellectual Property Rights: The Twenty-First Century Controversies*; [http://www.druid.dk/uploads/tx\\_picturedb/ds2003-889.pdf](http://www.druid.dk/uploads/tx_picturedb/ds2003-889.pdf) [08.04.2011]; Richard Posner, *Economic Analysis of Law*, 4th edition, Toronto: Little, Brown and Company, 1992, pp. 32–39.
  - 2 See more: Јадранка Дабовик Анастасовска, *Дојовор за лиценца – начин на водење бизнис*, Центар за европско применето право и економија – ЦЕППЕ, Скопје, 2009, стр. 28–69; *Exchanging Value – Negotiating Technology Licensing Agreements – A Training Manual*, WIPO, International Trade Centre, 2005, pp.13 – 25, available at [http://www.wipo.int/export/sites/www/sme/en/documents/pdf/technology\\_licensing.pdf](http://www.wipo.int/export/sites/www/sme/en/documents/pdf/technology_licensing.pdf) [1.4.2011].
  - 3 By the WIPO statistical database the number of filed PCT international patent applications has been stably increasing the past 8 years, so since 2002 increased by almost 50% (110.394 in 2002 compared to 163.938 in 2010); for further reference see <http://www.wipo.int/ipstats/en/statistics/pct/> [10.04.2011]. The same trend of increase can be seen in the number of applications filed with the EPO (100.701 in 2000 compared to 134.542 in 2009); for further reference see [http://documents.epo.org/projects/babylon/eponet.nsf/0/57439235539A0D63C125755B005CAFC1/\\$File/applications\\_2000-2009\\_per\\_residence\\_en.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/57439235539A0D63C125755B005CAFC1/$File/applications_2000-2009_per_residence_en.pdf) [10.4.2011].
  - 4 See *2009 EU Industrial R&D Investment Scoreboard*, European Commission – Joint Research Centre and Institute for Prospective Technological Studies, 2009, available at <http://iri.jrc.ec.europa.eu/research/docs/2009/JRC54920.pdf> [7.4.2011].

The need for setting up mechanisms to recover the damage of the patent owner is undisputable. The effectiveness and the efficiency in broader terms should support the overall aim of the Intellectual Property to protect both the needs of the IP owners and the needs of the public. One of the contributing factors in achievement of this goal is having clear rules on the liability for patent infringement.

This article aims at examining the system of liability for patent infringement in particular the system of awarding damages as they serve both as compensation to the rightholder for the economic detriment that results from an infringement, and as a specific and general deterrent to potential infringers. We will look into the norms of the two most important legislative acts for the enforcement of patents – the Agreement on the Trade Related Aspects of Intellectual Property and especially the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights so as to assess the underlining idea behind them and inspect their implementation in the legislation of the Republic of Macedonia and the Republic of Serbia. It is our intention is, in addition to provide for some practical recommendations.

## **II Substantive law rules for the damages for patent infringement**

Speaking in general terms, a patent is an exclusive right granted for an invention – product or a process that provides new technical solution to a problem. In order to be patentable, the invention must be new, include inventive step and applicable in the industry. The patent protection means that the invention cannot be commercially made, used, distributed or sold without the consent of the patent owner in the period in which the protection is granted. The patent owner may authorize the use of the invention by others via licensing on mutually agreed terms, or selling (assigning) the right to another party who becomes the new patent owner. The exclusivity of the right also means that the patent owner may enforce its rights against those who use the invention without the owner's consent. This enforcement inter alia includes claiming damages. Damages are considered the most common remedy for the infringement of intellectual property rights and their aim is to restore the victim to the position they would have been if the infringement has not been done.<sup>5</sup>

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<sup>5</sup> Lionel Bently, Brad Sherman, *Intellectual Property Law, Second Edition*, Oxford University Press, Oxford, 2004, pp.1101; Jennifer Davis, *Intellectual Property Law*, 3<sup>rd</sup> edition, Oxford University Press, Oxford, 2008, p. 14–15.

## 1. International legislative standards

### a) *Agreement on the Trade Related Aspects of Intellectual Property*

On international level the enforcement of the IP rights, including patents, become part of the agenda with the Agreement on the Trade Related Aspects of Intellectual Property (TRIPS Agreement)<sup>6</sup><sup>7</sup> which to date is the most comprehensive multilateral agreement on intellectual property. The TRIPS sets out the minimum standards of protection to be provided by each Member,<sup>8</sup> lays down certain general principles applicable to all IPR enforcement and makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.<sup>9</sup>

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- 6 TRIPS is an international agreement administered by the World Trade Organisation that sets down minimum standards for many forms of intellectual property regulation as applied to nationals of other WTO Members. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994, and came into effect on 1 January 1995. The TRIPS was agreed desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade. The areas of intellectual property that it covers are: copyright and neighbouring (related) rights, trademarks, geographical indications, industrial designs, patents, topography of integrated circuits as well as undisclosed information including trade secrets and test data.
  - 7 The previous international treaties on intellectual property, such as main conventions of the WIPO, the Paris Convention for the Protection of Industrial Property (Paris Convention) and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention), predominantly deal with the substantive issues on the elements of the protection and/or certain procedural aspects
  - 8 The TRIPS defines each of the main elements of protection (the subject-matter, the rights and their exceptions and minimum duration of protection). These standards are set by requiring TRIPS Member countries to comply with the substantive obligations of the WIPO conventions, the Paris Convention and the Berne Convention with the exception of its provisions on moral rights. Further, the TRIPS Agreement adds a substantial number of additional obligations on matters that were not covered by the pre-existing conventions or were covered it was seen as being inadequate. The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.
  - 9 In addition the Agreement provides for certain basic principles, such as national and most-favoured-nation treatment, and some general rules to ensure that procedural difficulties in acquiring or maintaining IPRs do not nullify the substantive benefits that should flow from the Agreement. The obligations under the Agreement will apply equally to all Member countries, but developing countries will have a longer period to phase them in. Special transition arrangements operate in the situation where a developing country does not presently provide product patent protection in the area of pharmaceuticals.

When it comes to enforcement of the IP rights in particular the TRIPS Agreement sets number of rules ranging from substantive to procedural issues. One can distinguish the following main features of the enforcement system set by the TRIPS Agreement (Article 41):<sup>10</sup>

- 1) The measures to be provided by the Member States should be such so they permit effective action against any act of infringement of intellectual property rights, prevent infringements and deter further infringements;
- 2) The application of the enforcement procedures should not be impediment to the legitimate trade and mechanisms should exist to provide for safeguards against their abuse;
- 3) Procedures concerning the enforcement of intellectual property rights shall be fair and equitable and not unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

These measures, in accordance with Article 42, are available to the right holders.<sup>11</sup>

One of the remedies that should be made available to the IP owner, in accordance with Article 45 is damages. This article sets that the damages should be adequate to compensate for the injury the right holder has suffered as result of the infringement done by a person who knowingly, or with rea-

10 TRIPS, Article 41: 1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse. 2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays. 3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard. 4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case. However, there shall be no obligation to provide an opportunity for review of acquittals in criminal cases. 5. It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.

11 For the purpose of this Part of TRIPS Agreement, the term "right holder" includes federations and associations having legal standing to assert such rights.

sonable grounds to know, engaged in infringing activity. In the cases where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, the Member States may provide for recovery of profits and/or payment of pre-established damages. The TRIPS Agreement does not provide for any further guidelines on how the national legislation should be shaped when it comes to calculation of damages.

*b) Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights*

At EU level, the issue of the patent is a hot topic in number of years.<sup>12</sup> However the enforcement of the patents, on legislative level at least,<sup>13</sup> is a clear

12 The European Commission, in 2000 has proposed the creation of a Community Patent (Proposal for a Council Regulation on the Community patent [COM(2000) 412 final]) to give inventors the option of obtaining a single patent legally valid throughout the European Union. The idea behind the proposal was to lessen the burden on business and encourage innovation by making it cheaper to obtain a patent and by providing a clear legal framework in case of dispute. The Lisbon and Feira European Councils cited the creation of a Community Patent as an essential part of Europe's efforts to harness the results of research to new scientific and technological developments and so contribute to ensuring a competitive, knowledge-based economy in Europe. The Summits recommended that the Community Patent should be available by the end of 2001. Following numerous discussions the proposal was amended several times in 2003. In December 2003 the Commission presented two proposals on the establishment of a Community patent jurisdiction (Proposal for a Council Decision conferring jurisdiction on the Court of Justice in disputes relating to the Community patent [COM(2003)827 final] and Proposal for a Council Decision establishing the Community Patent Court and concerning appeals before the Court of First Instance [COM(2003)828 final]). The Europe 2020 strategy adopted by the Commission on 3 March 2010, sets out 3 mutuallyreinforcing priorities: smart, sustainable and inclusive growth. The first priority requires strengthening knowledge and innovation as drivers for future growth. A key element here is improving the framework conditions for businesses to innovate, including the creation of a single EU patent and a specialised patent court. By providing for uniform protection of patent rights in the Internal Market, the EU patent will improve conditions for R&D investments, particularly in regions with below average innovation activity. This should facilitate reaching the 3% target of GDP invested in R&D affirmed by Europe 2020.; see further EUROPE 2020 – A European strategy for smart, sustainable and inclusive growth [COM(2010)2020].

13 The recently published Study on the quality of the patent system in Europe shows that the patent owners are having difficulties in the enforcement of their rights. In the survey, 96% of respondents agree on the fact that the current fragmentation across different jurisdictions generates excessively high legal costs and excessive uncertainty on the enforceability of patents, eventually harming patenting incentives. Further on, the expected costs of accessing patent courts are so high that they discourage patent owners from filing suits for 87% of surveyed companies. In addition, the risk of diverging outcomes from infringement proceedings at different European national courts has a strong negative impact on the incentives for patenting for more than 80% of respondents.

issue. The Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights<sup>14</sup> (hereinafter “Enforcement Directive”) provides civil law measures to enforce intellectual property rights. They encompass, in particular, evidence-gathering powers for judicial authorities, powers to force offenders and any other party commercially involved in an infringement to provide information on the origin of the infringing goods and of the distribution networks, provisional and precautionary measures such as interlocutory injunctions or seizures of suspect goods, corrective measures including permanent injunctions, recall and definitive removal of the infringing goods from channels of commerce, powers to force offenders to pay damages and measures related to the publication of judicial decisions. The Member States were obliged to transpose the Enforcement Directive was 26 April 2006, however the transposition process took much longer and in certain cases required intervention form the Court of Justice.<sup>15</sup>

The measures provided by the Enforcement Directive are based on three principles: effectiveness, proportionality and dissuasiveness. Protection is only then effective if it avoids unreasonable time limits or delays. The proportionality is a function of fairness and equity; protection that would create barriers to legitimate trade and which would deny safeguards against abuse would have to be deemed disproportionate. The principle of dissuasiveness could be seen in all of the measures; however it is to be considered that the prospect of damages pays the most important role.<sup>16</sup>

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More than two thirds of surveyed companies strongly agree on the fact that the lack of technically trained judges in some European courts is a relevant obstacle to enforceability. See *Study on the quality of the patent system in Europe*, March 2011, available at [http://ec.europa.eu/internal\\_market/indprop/docs/patent/patqual02032011\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/patqual02032011_en.pdf) [1.4.2011].

14 OJ L 157, 30.04.2004, p. 16.

15 The Directive was transposed on time by Denmark, Hungary, Italy, Slovenia and the UK. Infringements for noncommunications were recorded against Austria, Belgium, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Greece, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovak Republic, Spain and Sweden. Referral to the Court of Justice of the European Union was made for Germany, Luxembourg, Sweden, France and Portugal. The cases of France and Portugal before the ECJ were withdrawn, but decisions confirming an infringement had been taken by the Court of Justice against Germany, Sweden and Luxembourg. Greece notified complete transposition, but it was shown that Greece has implemented the Directive only in respect of copyright and related rights. For further reference see: *Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States* [SEC(2010) 1589 final]; available at [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2010:1589:FIN:E\\_N:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2010:1589:FIN:E_N:PDF).

16 On the principles of the IP Enforcement under the directive see Ansgar Ohly, *Three principles of European IP enforcement law: effectiveness, proportionality, dissuasiveness*; Electronic copy available at: <http://ssrn.com/abstract=1523277> [1.4.2011].

Article 13(1) of the Enforcement Directive requires Member States to enable the competent judicial authorities to order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by him as a result of the infringement. Where the infringer acted in good faith, Member States may allow the judicial authorities to order the recovery of profits or the payment of damages, which may be pre-established (Article 13(2)).

## 2. The legislation of the Republic of Macedonia and the Republic of Serbia

Both Republic of Macedonia and the Republic of Serbia in their EU integration process and at accession to the World Trade Organisation undertook to implement the set legislative standards in their national legislation and these processes are to a great extend successful.<sup>17</sup>

The Macedonian Law on Industrial Property (Official Gazette of the Republic of Macedonia No. 21/2009 and 24/2011; hereinafter MLIP), Art. 291, par. 1, provides that the person whose right acquired with this Law is infringed, shall be entitled to protection of the right by submitting a lawsuit to the Court which is competent to settle disputes regarding industrial property rights. As infringement of the registered and recognised rights determined by the MLIP is considered any unauthorised use, exploitation, restriction, imitation, association, rights harassment and the like contrary to the provisions of this Law (art. 291, par. 2). The Law on Industrial Property provides for the remedies as set by TRIPS and the Enforcement Directive.<sup>18</sup> In regard to the damages the Law provides the patentee with right to claim damages, retriev-

17 Further reading on Јадранка Дабовиќ Анастасовска, Ненад Гавrilовиќ, Аспекти на хармонизација на домашното право на интелектуална сопственост со правото на ЕУ, *Зборник од научната расправа „Методи на хармонизација на националното законодавство со правото на Европската Унија“*, Македонска академија на науки-те и уметностите, Скопје, 2008; Весна Бесаровић, Нове тенденции у развоју заштите права интелектуалне својине, *Анали Правној факултета у Београду*, година LV, 1/ 2007, стр. 45.

18 MLIP, Art. 294: (1) The person whose right shall be infringed may, with a lawsuit may demand from the court: 1) to determine if there is violation of the right; 2) to ban the actions set in the lawsuit that are violating the right; 3) to claim damages occurred by violation of rights intentionally or by negligence; 4) to confiscate or destroy the products produced or in circulation by violation of the right and assets used for their production; 5) the defendant to provide information about the identity of third parties involved in production and distribution of goods or services violating the rights, as well as about their distribution channels; 6) to submit the documentation and the data of the person violating the right; 7) civil punishment; 8) publication of the verdict on the expense of the defendant; and 9) other claims.

al of the profits acquired by the unjustified enrichment of the infringer and awarding lump sum based on expected royalties. The first two are awarded in accordance with the Law on Obligations (Official Gazette of the Republic of Macedonia no. 18/2001, 4/2002, 5/2003, 84/2008, 81/2009 and 161/2009; hereinafter LOO/RM). In addition, in the cases of willful infringement or gross negligence the plaintiff may claim the so called civil penalty (MLIP, Art. 303).

The Law on Patents of the Republic of Serbia (Official Gazette of SCG No.32/2004; hereinafter LPS), Art. 92, provides that the owner of the patent or holder of an exclusive license shall be entitled to institute civil proceedings against any person infringing his right by means of any unauthorized action against the rights of the patentee or the licensee.<sup>19</sup> In accordance with Art. 93 par. 1, the patent holder may claim damages<sup>20</sup> or in the cases of willful

19 These rights are defined by Art. 52 and Art. 53 as follows: *Content of Rights*, Article 52: The owner of a patent shall have the exclusive right: 1) to use the protected invention in production; 2) to place on the market products made by means of the protected invention; 3) to dispose of the patent. In exercising his exclusive right to the commercial use of a protected invention, the owner of a patent shall have the right to prevent any third party not having his consent from: 1) making, offering for sale, placing on the market or using the product made by means of the protected invention or from importing or storing the product for such purposes; 2) using the patented process; 3) offering the patented process for sale; 4) producing, offering for sale, placing on the market, using, importing or storing for such purposes a product directly obtained by the patented process; 5) offering for sale or supplying products that constitute essential elements of an invention to parties unauthorized to use such invention, if the offerer or supplier knows or has demonstrable grounds to know that such products are intended for the use of an invention owned by someone else. *Content of Rights Conferred by Patents in the Field of Biotechnology*, Article 53: If the patent concerns biological material possessing specific characteristics which are the result of a biotechnological invention, the rights laid down in Article 52, paragraph 2, shall extend to any biological material derived from that biological material through propagation or multiplication, in an identical or divergent form and possessing those same characteristics. If the patent concerns a product containing or consisting of genetic information, the rights laid down in Article 52, paragraph 2 shall extend to all other material in which the product is incorporated, provided it contains genetic information that performs its function, except the human body at the various stages of its formation and development, and the simple discovery of one of its elements, including the sequence or partial sequence of a gene in which the product is incorporated, provided it contains genetic information that performs its function. If the patent concerns a process that enables a production of biological material possessing specific characteristics as a result of the biotechnological invention, the rights laid down in Article 52, paragraph 2 shall also extend to biological material directly obtained through the process and to any other biological material derived from the directly obtained biological material through propagation or multiplication, in an identical or divergent form and possessing those same characteristics. Pursuant to this Law, "biotechnological inventions" are inventions which concern a product consisting of or containing biological material or a process by means of which a biological material is produced, processed or used.

20 By Art. 93 of LPS, The civil proceeding may be instituted to claim for: 1) establishment of the fact that a patent infringement exists; 2) prohibition of acts constituting patent

or with gross negligence infringement, in accordance with Art. 93, par. 2, he may claim up to triple the amount of royalties he would usually receive if the exploitation of the invention were conducted in accordance with the law. The appropriate provisions of the Law of Obligations (*Official Gazette of SFRY* no. 29/78, 39/85, 45/89 and 57/89 and *Official Gazette of SRY* no. 31/93; herein-after LOO/RS) apply to the issues concerning damages for infringement of rights that are not provided for by this Law.

### III Calculation of Damages

The Enforcement Directive provides for damages in cases of wilful or negligent infringements of intellectual property rights (Article 13(1)), but also for infringements committed in 'good faith' (Article 13(2)). Therefore the mere existence of an infringement is a sufficient justification for the patentee to claim damages. In these cases the general tort law rules apply – the patentee needs to prove the damage (prejudice), the existence of the infringing act and the causal link between them.<sup>21</sup>

The Directive sets two methods for determining the amount of the damages by the competent judicial authorities:

1. on the basis of the amount on the actual harm suffered by the patent;
2. awarding lump sum damages based on at least the (*single*) amount of royalties which would have been due if the infringer had legal grounds for the use of the patent, for example if the patentee and the infringer had licensing agreement.

#### 1. Damages appropriate to the actual harm suffered by the patentee

##### a) Patentees' profits

Lost profits are usually defined as profits which would have been earned by the victim (patentee), in the absence of the infringement, or which could have been justifiably expected (excluding the infringer's profits). The MLIP

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infringement; 3) compensation for damages caused by infringement; 4) publication of the court decision at the expense of the defendant; 5) seizure and/or destruction, without compensation of any sort, of products made or obtained by means of patent infringement; 6) seizure and/or destruction, without compensation of any sort, of material or articles (equipment, tools) predominantly used in the creation of infringing products.

21 Both the Macedonian and the Serbian Law of Obligations establish the same conditions for liability for damage.

and the LPS of Macedonia and Serbia do not define the lost profits. Such definitions are drawn from the respective Law of Obligations that have more or less the same definition: In the establishment of the amount of the lost profit into consideration is taken the gain that could have been reasonably expected by the regular order of the matters or under special circumstances, and which acquiring was prevented by the infringing act.<sup>22</sup> However, there is no precise rule which price should be taken into consideration when assessing the amount of the lost profits. Namely, should the starting point for the calculation be the price of the original product or the price of a counterfeit product. The latter, is usually lower considering the fact that in the calculation of the price the infringer does not include the costs for the development of the invention as he did not have them. It is our understanding that the starting point for the calculation should be the price of the original product. However, this does not solve the problem as the infringement may happen in cases when the patentee exploits the patent by manufacture of products but also in cases when he does not do so. In the first situation the courts will need to consider the decrease of the sales of the product, but this may open the question of causation. To be precise, the infringer would have to prove that the decrease of the sales are attributed to the existence of the infringing goods on the market and not to other economic circumstances. In the other situation – when the patentee does not exploit the patent, the courts should take into account the profits made by the infringer.

### b) *Infringers' profits*

As a result of the infringing activities the infringer makes certain profits. These cannot be accounted as damages per se as actually it is a case of unjustified enrichment. In this case the patentee should prove that causal link between the infringers profits and the infringing act i.e. that profits were made with as a result placing infringing products on the market.

The Macedonian Law on Industrial Property explicitly regulates that the person who without legal basis, court decision or law, in an unauthorised manner undertakes certain actions that violate the right acquired on the basis of this Law and gained a specific benefit, may by a lawsuit be demanded to recover or reimburse that benefit, in accordance with the general rules for unjust enrichment of the Law on Obligations (Art. 299, par. 3).<sup>23</sup> Although the LPS does not explicitly regulate this right of the patent holder, by the application of the general provisions of the Law of Obligations we understand that the patent owner may acquire such reimbursement.<sup>24</sup>

22 LOO/RM, Art. 178, par. 3; LOO/RS, Art. 189, par. 3.

23 The unjustified enrichment is regulated by LOO/RM Art. 199–208.

24 LOO/RS. Art. 210–220.

The question that arises is whether the infringers' profits can only be taken into consideration once, either as a recovery of unfair profits or as damages infringers' profits are awarded as an alternative, when the profits are higher than the rightholder's calculated damages (e.g. the rightholders' lost profits). The MLIP, does not exclude the possibility for claiming both damages and infringers' profits (Art. 299, par. 4) and regulates that in case of cumulative claims the general rules of the Law of Obligations are to be applied. However, when it comes to the Law on Obligations, both in Macedonia and in Serbia, there are not specific rules on this issue. The only reference may be found in the rules dealing with use of another's object as form of unjust enrichment that provide the right for the owner of the object to seek for return of the profits gained by the use of the object regardless of the damages and in their absence.<sup>25</sup> Here from we believe that the unjustified enrichment claims may be seek and awarded regardless of the damages, provided their existence is proven.<sup>26</sup>

### c) *Immaterial Damages*

With respect to immaterial damages the Enforcement Directive does not provide for any specific rules. In general the immaterial damages are awarded for the breach of the personality rights. In the case of the patents, first and foremost here we consider the damages for the breach of the moral right of the inventor to be named as such in the patent documentation. However this breach of right is not in the scope of the infringement of the patent rights as previously defined.

The second option one might consider is the damages for the harm of the personality rights (damage to honor, image and good-will etc) that may be seen as secondary infringement resulting for example f putting into circulation products of a lesser quality. The specific laws of industrial property of the two countries, the Macedonian Law on Industrial Property and the Serbian Law on Patents, do not have specific rules for this matter – as seen they refer to the notion of damages without further explication, so the general rules of the respective laws of obligations are applied. For this issue however, the two systems have significant differences. The Macedonian Law on Obligations, in Art. 9-a recognises the personality rights of both natural and legal entities,<sup>27</sup> understands the immaterial damage as infringement of the

25 LOO/RM, Art. 208; LOO/RS, Art. 220.

26 For the non-exclusion of the unjust enrichment suit and the damage claim in the Macedonian and Serbian legal theory see more Гале Галев, Јадранка Дабовиќ Анастасовска, *Облигационо право*, ЦЕПИЕ, Скопје, 2009, стр. 771; Živomir S. Đorđević, Vladan S. Stanković, *Obligaciono pravo*, Нaučna knjiga, Beograd, 1987, str. 561.

27 The respective article was introduced with the amendments of the LOO/RM in 2008.

personal rights<sup>28</sup> and provides for compensation (satisfaction) in the cases of infringement both in pecuniary and non-pecuniary form.<sup>29</sup> The Serbian Law on Obligations recognises the immaterial damage of natural persons only as it defies it as physical and physiological harm and suffering, that are only possible for the natural person,<sup>30</sup> while the concept of the compensation of the immaterial damage is the same as in the Macedonian system.<sup>31</sup>

## 2. Lump sum damages

### a) Single amount of royalties

The lump sum damages are calculated on the basis of the amount of royalties that would have been due if the infringer had sought an authorisation (licence) from the rightholder. Where a licence royalty is already fixed and used in the relevant sector, this amount will be used; if there is not an agreed royalty rate or where it is difficult to determine precise rates, often an estimated average royalty related to the specific type of business involved is used.

By Art. 299, par. 2 of the MLIP, the plaintiff may claim compensation to the amount that, depending on the circumstances, may be demanded under License Agreement if there is any. The LPS does not envisage such possibility.

The question that raises is whether the lump sum damages are alternative to actual prejudice damages if the damage cannot be assessed according to the actual prejudice suffered.

The wording of the Directive suggests the judicial authorities should be allowed to assess the damage according to the actual prejudice or to award them as a lump sum, as they consider more appropriate. On the other hand, the MLIP provides the possibility for cumulating the claims and refers the rules of the Law of Obligations to be applied. The general tort law rules is that the court will award damages in the amount that is needed the material state of the victim to be in the situation in which it would have been if there was not an infringing act (LOO/RM, Art.189). From this perspective it is our understanding that the lump sum damages in the amount of the royalty should be used only and to the exceed needed for the compensation of the total damage.

28 LOO/RM, Art. 142.

29 LOO/RM, Art. 187-a, 188 and 189.

30 LOO/RS, Art. 155.

31 LOO/RS, Art. 199, 200.

*b) Multiple amount of royalties*

Both the Macedonian and the Serbian legal systems provide for the possibility for claiming lump sum damages in the multiple amount of royalties. To an extend this presents exercise of the option to provide more favourable measures for the right holders as set in Art. 2(1) of the Enforcement Directive.

The Art. 303 of the MLIP sets several rules on the lump sum damages in multiple amount of royalties (named civil punishment). First, this claim may be submitted if the infringement is done with intention or gross negligence. The existence of the intention or gross negligence should be proven by the plaintiff, as in accordance with the general rules of tort law (LOO/RM, Art. 145, par. 2). Second, the amount that may be claimed is the licence royalty increased to 200%. Third, the civil punishment may be claimed regardless if the amount to the actual loss suffered. Forth, In the process of calculation of the amount of the civil punishment the Court should take into consideration: a) all the circumstances of the case especially the level of guilt of the defendant, the amount that will be due, the expected royalties as well as the preventive (detiment) aim of the punishment. Last, but not the least, if the actual loss cannot be compensated in total with the amount received in according with these rules, rightholder is entitled to demand the difference up to full compensation.

The LPS (Art. 93, par. 2) also provides for the possibility of lump sum damages in multiple amount of royalties, but the rules compared to the ones of the Macedonian system are considerably different. First, this option is available in the cases when the infringement of rights was committed intentionally or out of gross negligence. Second, the plaintiff may claim up to triple the amount of royalties he would usually receive if the exploitation of the invention were conducted in accordance with the law. Third, this claim may be brought instead of the regular compensation of damages. This possibility is an option for the right holder in the cases where the prove of the actual damages might be difficult.

#### **IV Conclusion**

Both the Macedonian and the Serbian systems of patent enforcement provide for mechanisms for the damages for patent infringement. The set up mechanisms are in concordance with the TRIPS and the Enforcement Directive Requirements. In summary the Macedonian IP legislation provides for four remedies: damages, return of the earning unjustifiably gained, compensation in form of royalty payment (lump sum damages in the amount of

the expected royalty) and compensation in form of multiple royalties (civil punishment). The first three remedies may be cumulated however this might complicate the patent litigation especially in the cases of commutation of the claim for damages and claim for compensation based on royalty and the later should serve the cases when the calculation of the damages difficult. The possibility to claim for full compensation in the case of compensation in form of civil punishment is justified with the general rules for full compensation of the Law of Obligations. The Serbian patent legislation provides for compensation of damages and compensation in form of multiple royalties, the later of which may be seek only as alternative to the first. It remains unclear whether in such cases the plaintiff may ask for full compensation if the amount received from tripling the royalty does not recover the actual loss suffered. By application of the rules of the Law of Obligations, the patent holder in Serbia may claim for return of earning obtained by unjustified enrichment.

From the analysis of the substantive law provisions the following shortcoming may appear in their practical application:

1. The courts may face difficulties in calculating the damages, as they ad dominantly based on lost profits which are difficult to accurately assess in the patent infringement cases;
2. The return of the earning in course of unjustified enrichment done by the infringing act should be explored more as an option and in addition clear rules for the patent infringement cases should be developed in both countries;
3. In regard to the lump sum damages in amount of regular royalty or multiple royalties provide for overcoming the shortcomings of the "lost profit" damages method, however in the state of the affairs with the patenting and licensing in Macedonia and Serbia the notion of the expected or regular royalty in a specific field remains rather vague;
4. Except for the lost profits, the compensation of the immaterial damages that may be suffered might be unavailable to the patent holders. In Serbia this arises from the lack of rules for compensation of immaterial damage to legal entities, but in both countries even with legislation in place the existence of these damages will be difficult to prove and even more difficult to assess. It is recommendable to encourage the further development of the knowledge and skills of the judges in this regard.

For full estimation of the system of patent infringement damages one must also undertake a complete survey of the existing court practice and the problems the patent holders are facing in obtain damages. The system in both

countries is put place and it is to see further how it functions so as to propose if/where needed adequate changes in order to reach a level where the damage awards result in complete indemnification of the injured rightholder. Otherwise, those who invest their creativity and resources in inventing new products and processes will be uncompensated, so instead of creating incentives for R&D the legal system will become a disincentive.

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## НЕКОЛИКО ОПСЕРВАЦИЈА О НАКНАДИ ШТЕТЕ ЗА ПОВРЕДЕ ПАТЕНТА

### Резиме

У чланку ауторица анализира систем одговорности за повреде патената, посебно систем накнаде штете у Републици Македонији и Република Србији. У уводу ауторица објашњава разлоге за бављење овим штитањем и циљеве чланска. У другом делу рада, прави се прејелег стандарда који су постављени Споразумом о привинским аспектима права интелектуалне својине, а посебно Директиве 2004/84/EZ Европске парламенте и Савета од 29 април 2004 о спровођењу права интелектуалне својине, као и манифестно право двију земаља у Јединству накнаде штете за повреде права патената. Трећи део се фокусира на методе одмеравања штете и могућностима које постоје према законима Македоније и Србије. На крају ауторица резимира налазе анализе и истиче штитања која треба узети у обзир током практичне примене законских одредби.

**Кључне речи:** повреда патената, накнаде штете, одмеравање штете.